

**SHIBOLET
in cooperation with
FENWICK & WEST LLP**

**Trends in Legal Terms in Venture Financings
in Israel**

(Second Half of 2008)

- **Background** – We have analyzed the terms of venture financings for 43 Israeli and Israeli-related technology companies that reported raising money in the second half of 2008. Our survey does not include financing rounds of less than US \$500,000. The tables below also show, for purposes of comparison, the results of our previously released surveys.
- **Financing Round** – The financings closed in the second half of 2008 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:

| Series | H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| A | 30% | 36% | 36% | 46% | 35% | 21% | 34% | 28% | 35% | 20% |
| B | 30% | 27% | 32% | 18% | 27% | 28% | 27% | 22% | 21% | 36% |
| C | 16% | 20% | 14% | 16% | 24% | 19% | 12% | 26% | 25% | 26% |
| D | 12% | 12% | 11% | 8% | 7% | 19% | 17% | 9% | 11% | 8% |
| E and higher | 12% | 5% | 7% | 12% | 7% | 13% | 10% | 15% | 8% | 10% |

- **Price Change** – The financings closed in the second half of 2008 and in the periods covered by our previous surveys may be broken down by the directions of the change in price as compared to each company's respective previous round, as follows:

| Price Change | H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Down | 32% | 18% | 9% | 31% | 32% | 26% | 30% | 19% | 43% | 42% |
| Flat | 14% | 0% | 6% | 4% | 6% | 9% | 4% | 16% | 12% | 3% |
| Up | 54% | 82% | 85% | 65% | 62% | 65% | 66% | 65% | 45% | 55% |

The percentages of financing transactions that were down-rounds, broken down by series, were as follows:

| Series | H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| B | 23% | 7% | 0% | 44% | 7% | 31% | 36% | 0% | 25% | 24% |
| C | 29% | 0% | 25% | 25% | 54% | 27% | 20% | 33% | 56% | 62% |
| D | 20% | 57% | 17% | 25% | 25% | 18% | 29% | 25% | 43% | 0% |
| E and higher | 60% | 33% | 0% | 17% | 50% | 14% | 25% | 14% | 40% | 80% |

- **Liquidation Preference** – Senior liquidation preferences were used in the following percentages of financings:

| H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 83% | 75% | 75% | 63% | 72% | 80% | 81% | 76% | 80% | 78% |

The percentages of financing transactions with senior liquidation preference, broken down by series, were as follows:

| Series | H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| B | 69% | 73% | 78% | 56% | 67% | 75% | 73% | 80% | 85% | 61% |
| C | 86% | 73% | 63% | 50% | 77% | 73% | 100% | 75% | 75% | 92% |
| D | 100% | 71% | 67% | 75% | 75% | 91% | 71% | 75% | 71% | 75% |
| E and higher | 100% | 100% | 100% | 83% | 75% | 86% | 100% | 71% | 100% | 100% |

- **Multiple-Based Liquidation Preferences** - The percentage of financing transactions with senior liquidation preferences that included multiple preferences was as follows:

| H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 10% | 7% | 22% | 6% | 4% | 9% | 18% | 16% | 24% | 23% |

Of the financings in which there were senior liquidation preferences based on multiples, the range of the multiples may be broken down as follows:

| Range of multiples | H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| >1x- 2x | 100% | 100% | 83% | 100% | 100% | 100% | 75% | 25% | 88% | 100% |
| >2x - 3x | 0% | 0% | 17% | 0% | 0% | 0% | 0% | 75% | 0% | 0% |
| > 3x | 0% | 0% | 0% | 0% | 0% | 0% | 25% | 0% | 12% | 0% |

- **Participation in Liquidation** - The percentage of transactions, out of the total number of financing transactions, which included participation rights in liquidation were as follows:

| H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 88% | 86% | 82% | 84% | 89% | 93% | 85% | 91% | 79% | 90% |

Out of those financing transactions the terms of which provided for participation, the percentages of those in which no cap was placed on the investors' right to participation were as follows:

| H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 58% | 58% | 54% | 47% | 51% | 57% | 57% | 69% | 60% | 67% |

- **Cumulative Dividends and/or Accrued Interest as Part of the Liquidation Preference** – Cumulative dividends and/or accrued interest constituted part of the liquidation preferences in the following percentages of financings:

| H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 58% | 64% | 63% | 58% | 56% | 56% | 68% | 78% | 52% | 62% |

- **Anti-dilution Provisions** - The use of anti-dilution provisions in the financings which took place in the second half of 2008 and in the periods covered by our previous surveys may be broken down as follows:

| Type of Provision | H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Full Ratchet | 12% | 9% | 16% | 14% | 18% | 28% | 39% | 31% | 30% | 28% |
| Weighted Average | 88% | 91% | 82% | 78% | 82% | 65% | 61% | 65% | 64% | 66% |
| None | 0% | 0% | 2% | 8% | 0% | 7% | 0% | 4% | 6% | 6% |

- **Pay-to-Play Provisions** - The use of pay-to-play provisions in the financings which took place in the second half of 2008 and in the periods covered by our previous surveys may be broken down as follows:

| H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 7% | 2% | 2% | 8% | 2% | 9% | 15% | 0% | 13% | 14% |

- **Redemption** – The percentage of transactions in the second half of 2008 and the periods covered by our previous surveys, out of the total number of financings in each respective period, in which the terms provided for mandatory redemption or redemption at the option of the venture capitalist was as follows:

| H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12% | 11% | 25% | 8% | 18% | 14% | 20% | 17% | 21% | 26% |

- **Corporate Reorganizations** – The percentage of post-Series A financing transactions in the second half of 2008 and the periods covered by our previous surveys, out of the total number of financings in each respective period, which involved the conversion of senior securities into more junior securities was as follows:

| H2'08 | H1'08 | H2'07 | H1'07 | H2'06 | H1'06 | H2'05 | H1'05 | H2'04 | H1'04 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 13% | 2% | 0% | 4% | 2% | 2% | 2% | 7% | 2% | 10% |

For additional information about this report please contact Lior Aviram – l.aviram@shibolet.com or Limor Peled – l.peled@shibolet.com, at Shibolet & Co., 972-3-7778333; or Barry Kramer at 650-335-7278; bkramer@fenwick.com or Michael Patrick at 650-335-7273; mpatrick@fenwick.com at Fenwick & West. To be placed on an email list for future editions of this survey please go to www.shibolet.com or to www.fenwick.com/vctrends.htm.